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MARKET SEGMENTATION AS A STRATEGY FOR CUSTOMER SATISFACTION AND RETENTION

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Abstract

In today's competitive world, market segmentation is a crucial marketing strategy which aim to identify and delineate market segments which would then become targets for the company's marketing plans. Segmentation is very important if players in the industry are to achieve customer satisfaction which could influence customer retention. Market segmentation involves viewing a heterogeneous market as a number of smaller homogeneous markets, in response to differing preferences, attributable to the desires of customers for more precise satisfactions of their varying wants. This paper looks at the use of market segmentation as a tool for improving customer satisfaction. The paper argues that in spite of the egalitarian approach that underpins the marketing of institutions, market segmentation may be used to better serve the needs of their customers. In utilizing market segmentation, the institutions must pay particular attention to barriers that may negatively impact the effectiveness of the market segmentation exercise. Consequently, the need to pay particular attention to issues relating to barriers to implementing market segmentation is highlighted. This paper also attempts to address usefulness of segmentation and makes future recommendations and further research on the key areas of effective segmentation and the need to bridge the gap between normative market segmentation approaches and business practice.

Keywords: Market segmentation, customer satisfaction, retention, strategy

INTRODUCTION

Marketing segments must be large enough to meet the financial needs of the company and the product. Segments may be chosen based on demographics, psychographic, behavioral or geographic location. The segment must also be reachable by promotional means. Customer satisfaction, customer loyalty and customer retention are important intermediate goals for institution providers on their way to superior economic success in the liberalized markets. As market growth slows or as the markets become more competitive, companies will more likely attempt to maintain their market share by focusing on retaining existing customers, rather than attempting to attract new customers. Customer retention has been advocated. To improve customer retention, companies initiate a variety of activities, including programs on customer satisfaction (Rust & Zahorik,1993), complaint management (Fornell & Wernerfelt, 2003), and loyalty (Reichheld & Sasser 2000). Speed and Smith (1992) advocate the use of segmentation as a way to improve customer satisfaction, customer loyalty and customer retention.

Many institutions spend a considerable portion of their time, energy and resources chasing new business. Although it is important to replace lost business, grow the business and expand into new markets, one of the primary goals should be to keep existing customers and enhance customer relationships. Conventional wisdom suggests that it costs at least five times more to get a new customer than to keep an existing one (Weinstein, 2002). According to Weinstein, in many markets, share of customer, which is a customer retention measure, has supplanted market share, which is a customer attraction measure, as the relevant business performance objective. Consequently a good understanding of customers' purchasing patterns helps companies keep customers and gain a greater share of their business.

Market segmentation is a fundamentally important concept within any institution. The customer segmentation process determines the method of operating of all the functions that serve the customer. A key element for increasing market share and profitability in a fragmented market is through the strategy of market segmentation since stiffer competition has resulted in the need for institutions to identify various options for survival.

The primary objective of segmentation must be how to win and retain customers. Players in any industry must concentrate on attracting new customers into their organization and most importantly efforts must be geared towards keeping such customers; market segmentation therefore offers an opportunity to do so. Unfortunately industries have been slow in taking advantage of market segmentation though it brings some benefits to such companies. However, most companies in various industries use market segmentation in achieving customer service excellence

LITERATURE REVIEW

The Mosaic model

The Mosaic model is a segmentation system developed by Experian and exists in many countries worldwide. It is based on the geodemographic values. The geodemographic value combines the variables from the geographic segmentation and the demographic segmentation and thereby the geodemographic segmentation combines the study of the target customers with where they live. The model divides people into broad groups and within these broad groups the target consumers are divided into smaller groups. The Mosaic model is one of the most common used models when segmenting according to the geodemographic segmentation.

Expectation confirmation theory

Expectations-confirmation theory posits that expectations, coupled with perceived performance, lead to post-purchase satisfaction. This effect is mediated through positive or negative disconfirmation between expectations and performance. If a product outperforms expectations (negative disconfirmation) the consumer is likely to be dissatisfied (Oliver, 1980; Spreng et al. 1996).

The four main constructs in the model are: expectations, performance, disconfirmation, and satisfaction. Expectations reflect anticipated behavior (Churchill and Suprenant, 1982). They are predictive, indicating expected product attributes at some point in the future (Spreng et al. 1996). Expectations serve as the comparison standard in ECT – what consumers use to evaluate performance and form a disconfirmation judgment (Halstead, 1999). Disconfirmation is hypothesized to affect satisfaction, with positive disconfirmation leading to satisfaction and negative disconfirmation leading to dissatisfaction.

A major debate within the marketing literature concerns the nature of the effect of disconfirmation on satisfaction. The root of the problem lies in the definition of predictive expectations as the comparison standard for perceived performance. In such case, the confirmation of negative expectations is not likely to lead to satisfaction (Santos and Boote 2003). To overcome this problem, researchers have proposed other comparison standards such as desires, ideals, equity, or past product and brand experience

Empirical review

Market segmentation is customer-oriented philosophy. It is a technique of recognizing effectively the differences among customers. It is well-tested system for guiding marketing strategy. It enables banking sector to offer quality services and results-based services to embrace segmentation based on benefit sought. The benchmarking of competitors should not be overlooked in order to retain existing customers and attract potential ones.

Weinstein (2002) advocates that service providers attempt to know who the better customers are through the use of demographic, geographic, psychographic and behavioral research. In doing so a profile of the “typical user” is determined. Such information then becomes very useful in the subsequent marketing effort. To retain customers and to gain a larger share of their business, service providers need to develop better understanding of the customers’ purchasing pattern. Increasing a company’s share of customers’ business can ultimately have a dramatic impact on

Market share and profitability. In evaluating customers’ usage and loyalty pattern, recency, frequency and monetary value (RFM) analysis can be a useful tool. Recency refers to the last service encounter, frequency looks at how often the customer contact/company experiences occur, and monetary value assesses the amount that is spent, invested or committed by the customers for the firm’s product and service

Market segmentation comes about as a result of the study that all potential users of a product are not alike. They are different in the consumption behaviors, in their lifestyles, and in patterns of buying and using. As a result, the same general appeal will not interest all prospects and satisfy every customer's needs. Therefore, in order to enhance customers' satisfaction, it is necessary to divide the generic market into segments.

Different marketing strategies and tactics will be developed accordingly by properly considering both the differences among potential consumers and that the firm's objectives and resources. The psychological variables obtained are of two major types of customer, namely personality profiles and lifestyle profiles (psychographics). When geographic and demographic attributes do not supply an adequate view of the customer behavior, psychological profiles are often used as an extra source of information. While the usual geographical and demographical bases (sex, age, income etc.) provide the marketer with openness to customer segments, the psychological variables provide additional information about these and improve knowledge of the indulgent behavior of present and potential target markets (Gunter and Furnham, 1992: 26)

Segmentation Variables

Performing market segmentation requires the selection of a basis for segmentation (the dependent variable) as well as descriptors (the independent variables) of the various segments (Wind, 1978). Usually, multiple segmentation variables are used in combination to achieve smaller, better-defined target groups. The most useful techniques have often resulted from practical successes, not as much from theoretical studies. Marketers must identify which of them provide the best view of the market structure currently in question.

Geographic segmentation

Dividing a market into geographic segments is one of the oldest ways to perform market segmentation. The underlying assumption is that people have different needs and wants based on where they live. Commonly, a geographical segmentation scheme divides a market into units such as nations, states, regions, counties, cities or neighborhoods. A company can decide to operate in only a few of the segments, or in all of them but customize their offering according to the geographical differences in needs and wants said by Kotler & Armstrong (2003). Geographic segmentation is most commonly used by multi-national industrial and high-tech businesses, which alter their marketing mix based on the differing needs of consumers in each of the geographic segments they wish to serve. Simple geographic segmentation is usually an easy, manageable and comparatively inexpensive way to handle a market especially an international one. The practicality of geographical differentiation on a multi-national scale in the banking industry has also been criticized by Kotler & Armstrong (2003) and McDonald & Dunbar (2004).

Demographic segmentation

Another widely recognized consumer market segmentation scheme makes use of demographics. Demographic segmentation is defined as the division of a market into groups based on demographic variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation and nationality by Kotler &Armstrong (2003). Demographics have gained much popularity because they are easily measured and often vary closely with consumer needs and usage rates. The complexity and costs of the scheme also stay relatively low.

Demographic variables must, however, be handled carefully. Critique from Cahill (2006) points out that although there generally are behavioral differences between e.g. men and women or teenagers and elders, they are at best displayed by only a large majority of the group. Consequently, the remaining subset whose behavior does not into the framework of the demographic group (e.g. youngsters acting like elders, or vice versa) might not enjoy being reminded that they do not it with their peers. Reaching the desired segment without offending anyone belonging or not-belonging to the target group can thus prove to be challenging task. Demographic segmentation has also been criticized, together with geographical segmentation, of the approach of predetermining how the market divides into segments (McDonald & Dunbar, 2004). In reality, customers do not slot themselves into any categories determined beforehand,

and this is why banks should rather focus on getting a holistic understanding of their customers' needs than engaging the market with ready-made pigeonholes for groups of buyers.

Psychographic segmentation

Using a psychographic segmentation scheme means dividing the market into different groups based on various psychological characteristics of the buyers, such as social class, lifestyle or personality. Marketers have understood that to attract or motivate a particular group of consumers, it is necessary to know how they think and what their values and attitudes are, as well as who they are in terms of the traditional demographic variables Ziff (1971). The power of psychographics is that it identifies basic beliefs and attitudes that influence consumer behavior in various situations. Ziff's study (1971) suggests that by finding a core of attitudes and values that affects the buying behavior for a class of products, one can gain general understanding that can be applied to other related products or even completely different classes of products. Because the changes in person, family and occupation throughout life affect buying behaviour, psychographic and demographic segmentation bases are often used in combination to better identify market segments. Behavioral variables, e.g. usage rates, can also be used to complement a psychographic segmentation scheme.

Behavioral segmentation

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses or responses to a product. Common approaches are, for example, usage rate and occasion segmentations (Kotler& Armstrong,2003).A behavioral segmentation scheme has the advantage that it is rather closely tied to the product or service that the company is offering.

Usefulness of segmentation in industries

For successful offerings, a segmentation practice plays a major role. It is a part of the bigger marketing plan that allows marketing managers to separate, identify and evaluate the layers of a market to design a marketing mix. Market Segmentation plan helps companies to focus on all the needs and wants of their customers. According to Asiedu, segmentation is seen as the bedrock of a firm's success in developing market. However, it varies depending on the type of business and the objectives in which it focuses. Abel argued that the technique of partitioning a market discloses strategic and profit opportunities for new competitors to challenge market leaders in the system.

Industry performance is based on Key Performance Indicators (KPI) and it is influenced by the profitability of the company, its percentage of the market share, return on investment

(ROM), return on assets (ROA),and return on equity (ROE) as well as its customer retention ability. In the words of Salami and Adeoti the quantity and quality indicators of performance are regulated by the profitability of the business and the risk which gives alternatives for assessing and evaluating the achievement of objectives through maximization of owners' wealth.

Customer retention ability is defined as the ability to retain its customers based on the assessment of product or service quality. Thus performance determines how loyal its customers are and it is normally measured in percentage of long term customers. This is very important because satisfied retained customers tend to lower cost (cost less), make valuable reference to new potential customers to increase market share, and spend more. However, industries can only perform well and satisfy their customers when there is proper market segmentation.

Industries ability to retain its customer's shows how satisfied their customers and brand loyalties are. Market segmentation can help to efficiently match their limited resources to target the market requirements and resource to reduce cost. It paves way to embrace consumer requirement that tends to increase customer satisfaction and retention. Industries can improve their customer retention through segmentation practices. Some scholars also link customer retention and performance to the company's value maximization in the stock market .The approach is based on the interrelationship that exist between operational efficiencies changes, the prices of the company's stock in the market, exchange or change rate and the general economic situation.

Segmentation implementation challenges

- **Ignoring Potential Audiences**

When leaving out certain segments, a company may not be able to maximize potential. Additionally, a brand may gain a permanent association with a certain group, especially when utilizing social class, race, or lifestyle, which may deter others from using the product.

- **Forgetting About Individuality**

Quantitative surveys produce numerous statistically significant segments, but creating the segment (or segments) for which the company should target is not a simple task. Just as every individual is unique in some way, shape or form, it is hard to classify people into buying-behavior segments. Marketing concentrated on a "segment" may only cater to a portion of the individuals within the segment, leaving the others out.

- **Sending the Wrong Message**

Another problem that can arise during the process of segmentation is cannibalization, in which one segment overtakes another so nothing is gained and in the worst case, sales or market share is lost. Moreover, there is a risk of sending the wrong message or an occurrence of brand "dilution" to too many segments, or different messages to different segments of the market. Additionally, while consumer segmentation is one of the major studies of market research throughout top-performing companies, it proves very difficult to get it right –at least the first time. Despite these shortcomings, segmentation is still a valid tool to help understand your audience.

CONCLUSION

There are number of ways in which a market can be segmented. An organization will need to use the right strategy that is best for it products or services. Often, the best choice arises from using various strategies. The perception of cultural differences in today's global market could be the key for any organization's success. As a result, every organization will need to shape their marketing strategies to their consumer's buying habits

Market segmentation emerges as a key marketing imperative. It is recognized that markets and those individuals who make up such markets are not homogenous and therefore no single market offering will satisfy all individuals (Alderson, 1983; Assael and Roscoe, 1976).

One of the key decisions to be made within any segmentation study is the selection of the criteria on which the market will be segmented. A number of approaches have been discussed in this paper, including geographic, demographic, psychographic, benefit, usage, loyalty, image, situation and behavioral criteria. Benefit segmentation emerges from the literature as a preferred approach particularly in relation to banking sector. (Botschen, Thelen and Peiters, 1999; Johar and Sirgy, 1995, Young et.al, 1978; Haley, 1968). Grouping customers based on the benefits sought from the banking experience, supplemented by more traditional segmentation criteria such as geographic and demographic profiles has been found in this paper as more likely to yield segments that are valuable predictors of behaviour (Botschen, Thelen and Peiters, 1999; Wind, 1978; Haley, 1968).

Modern business organizations always have to deal with immense uncertainties and stiff competitions (Hakansson and Snehota, 1995). Successful dealing with uncertainties and competition requires up to date and innovative business weapons (Barratt, 2004). Investment in the right places, at the right time and on the right track is always the key to keep every threat behind and stepping towards desired destiny (Jones and Riley, 1985). Organizational financial as well as human capital need to be goal directed and invested in appropriate sectors (Lewis, 2005b). The analysis of different global pioneer organizations reveals that their success stories always rooted in the areas of identifying suitable opportunities and capitalize those by utilizing the value chain Management perfectly.

Opportunities go begging (Sherer, 2005). They have utilized those up to maximum extent and one thing is common in all those organizations value chain management. That common thing is all of them have segmented markets and they follow specific customer focus strategies for all those segments (Lewis, 2005b). The success journey of the global leading corporations articulates the huge importance of market segmentation and customer focus strategies for highly successful value chain management (Anderson et al., 2004). Market segmentation helps to segment the market and provide the opportunities for differentiation, focus, specific needs fulfillment whereas customer focus strategies enables the organization to understand customers and provide them what actually they want (Steenkam and Hofstede, 2002). Successful management of value chain is definitely the key for long term management and organizational achievement and market segmentation and customer focus strategies are of huge significance for efficient value chain management without any slimmest of doubt (Lewis, 2005b).

FURTHER RESEARCH

To make further recommendations for companies, it would be necessary to investigate the distinctive resources that are required for the different segmentation approaches. Additional research into strategy-specific knowledge, competencies and capabilities promises valuable perceptions for a better understanding of the different segmentation strategies.

In addition, further research on the required conditions for different segmentation strategies could provide promising insights. It can be assumed that a specific segmentation strategy requires particular segmentation procedures and processes.

Overall, there is need for a fruitful basis for identifying further causes and reasons that explain the performance of different market segmentation approaches. Finally, there is still an enormous need for more research to bridge the implementation gap between normative market segmentation approaches and business practice.

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